VZCZCXRO0503
PP RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSR
DE RUEHUP #0087 0330800
ZNY CCCCC ZZH
P 020800Z FEB 09 ZDK
FM AMEMBASSY BUDAPEST
TO RUEHC/SECSTATE WASHDC PRIORITY 3845
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L BUDAPEST 000087

SIPDIS

DEPARTMENT FOR EUR/CE, EB/OMA, INR/EC; TREASURY FOR ERIC MEYER, JEFF BAKER, AND LARRY NORTON; PLEASE PASS TO NSC FOR ADAM STERLING

E.O. 12958: DECL: 01/27/2014
TAGS: PGOV ECON HU
SUBJECT: NOTHING NEW UNDER THE GUN: GOH AIMS LOW ON REFORM DESPITE RISING CONCERNS RE THE ECONOMY

REF: BUDAPEST 53 AND PREVIOUS

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: The GoH continues to talk loudly about its financial straits but to carry a very small stick on structural reform. Despite repeated references to the historic magnitude of the financial crisis, the Gyurcsany government appears to be aiming low by limiting its response to modest amendments of the 2009 budget and marginal changes in the tax regime and the social welfare system. End Summary.

¶2. (C) Parliament convened in emergency session January 29 for PM Gyurcsany's review of Hungary's economic challenges. The Prime Minister had few specific initiatives to unveil, making only a general case for introducing needs-based testing for welfare payments, balancing reductions in employment taxes with increases in the VAT and property tax, and streamlining Hungary's public sector bureaucracy. These changes will not reduce Hungary's excessively high redistribution rate, but merely rearrange the sources of tax revenue

¶3. (SBU) As observers were quick to note, there was nothing new in Gyurcsany's remarks. As they also note, bad news continues to mount:

The forint has set record lows in trading against the Euro in the past week, now standing at approximately 300 HUF/Euro;

The latest projected growth rates for the region list Hungary as the only country likely to experience negative growth this year;

An estimated 20,000 layoffs were announced in the last two months of 2008, bringing the annual total of newly unemployed to 32,000; many who have not lost their jobs have taken pay cuts as more and more companies move to a four-day work-week;

New car sales are down over 50 percent year-on-year;

Purchasing orders are down over 25 percent year-on-year;

Business contacts continue to warn senior Hungarian officials that negative decisions regarding investment in Hungary will continue without "quick and clear" steps to restore international confidence in the government's commitment to reform.

¶4. (SBU) Work continues on revisions to the 2009 budget, but analysts including Political Capital's Peter Kreko expect that the changes ) now expected "within 45 days" ) will not alter expenditures by more than five percent. As Kreko explains, this will allow the government to bill its new

submission as an "amendment" rather than a full revisions, thus avoiding the risk of a new vote in Parliament.

¶5. (C) Public reaction is another risk the government seems eager to avoid. Discussing pension reform with the AmCham leadership last week, Cabinet Minister Peter Kiss confided that even a modest increase in the retirement age (from 62 to 65) would not take effect until "the mid-2020s" and "could not even be discussed in public in an election year." The government's fundamental goals for 2009, he explained, were to ensure "a lower deficit, some progress on structural reform, and access to financing from international capital markets."

¶6. (C) Comment: While the government's references to an economic crisis are appropriate ) if overdue ) their actions have thus far failed to rise to the occasion. Although Kiss claims that the governing Socialist party has made the cognitive leap in understanding that "we can no longer manipulate the market," they clearly do not want to walk the plank with the public. Polling indicates that economic issues are foremost on voters' minds as the European Parliamentary elections approach, but one survey shows a record low 26 percent of Hungarians support a free market. The public reacted swiftly to the government's recent trial balloon regarding even a five percent decrease in social security payments; the government will likely bear that in mind as it weighs the political risks of even token economic reforms. End Comment.

Foley